SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80385; File No. SR-CBOE-2017-014)

April 6, 2017

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change Related to Rule 24.9(e)

I. Introduction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission ("Commission") a proposed rule change to amend the operation of its nonstandard expirations pilot program on February 13, 2017. The proposed rule change was published for comment in the Federal Register on February 21, 2017.[3] No comment letters were received in response to this proposal. This order approves the proposed rule changes.

II. Description of the Proposed Rule Change

The proposed rule change amended the nonstandard expirations pilot program set forth in CBOE Rule 24.9(e) (the "Pilot Program") to permit the Exchange to list weekly and monthly expirations non-consecutively.

In its filing, the Exchange explained that the Pilot Program initially permitted CBOE to list P.M.-settled "end-of-week" options on broad-based indexes that expire on any Friday of the month, other than the third Friday of the month ("EOWs"), and "end of month" options that

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 80037 (Feb. 14, 2017), 82 FR 11290 (SR-CBOE-2017-014) ("Notice").

expire on the last trading day of the month ("EOMs").[4] The Pilot Program was later expanded to allow CBOE to list P.M.-settled options on broad-based indexes that expire on any Wednesday of the month ("WEDs") and any Monday of the month ("MONs").[5] The Pilot Program permits the Exchange to list, for any given class, the maximum number of expirations permitted by CBOE Rule 24.9(a)(2) for standard options on the same broad-based index.[6] For example, the Exchange stated that MONs, WEDs, EOWs and EOMS in the S&P 500 Index options class ("SPX") may each have up to twelve expirations under the Pilot Program (i.e., a total of 48 expirations),[7] although the Exchange represented that it does not currently choose to list all such expirations.[8] Rather, the Exchange explained that it introduces expirations as customer demand dictates and typically lists four MONs, six WEDs, and seven EOWs in SPX options at a time.[9]

The Exchange noted, however, that MONs, WEDs, and EOWs (collectively, "Weekly Expirations") currently must be listed for consecutive Monday, Wednesday, or Friday expirations, as applicable.[10] Similarly, EOM expirations currently must be listed for consecutive

4 See Notice, supra note 3, at 11290; see also Securities Exchange Act Release No. 62911 (Sept. 14, 2010), 75 FR 57539 (Sept. 21, 2010) (SR-CBOE-2009-075) (order approving the establishment of the nonstandard expirations pilot program).

5 See Notice, supra note 3, at 11290-91. See also Securities Exchange Act Release No. 76909 (Jan. 14, 2016), 81 FR 3512 (Jan. 21, 2016) (SR-CBOE-2015-106) (order approving the inclusion of WEDs in the Pilot Program); Securities Exchange Act Release No. 78531 (Aug. 10, 2016), 81 FR 54643 (Aug. 16, 2016) (SR-CBOE-2016-046) (order approving the inclusion of MONs in the Pilot Program).

6 See Notice, supra note 3, at 11291; CBOE Rule 24.9(e)(1)-(2).

7 See Notice, supra note 3, at 11291; see also CBOE Rule 24.9(a)(2) (specifying that the Exchange may list up to twelve standard monthly expirations at any one time for any class – like SPX – that the Exchange uses to calculate a volatility index).

8 See Notice, supra note 3, at 11291.

9 See id.

10 See id.; see also CBOE Rule 24.9(e)(1).

month-end dates.[11] The Exchange indicated that it had received repeated customer interest to list Weekly Expirations and EOMs that expire in the mid-term – as opposed to the short-term expirations set forth in the Exchange's current listing schedule[12] – in order to provide a potential financial hedge for impactful economic events.[13] The Exchange therefore proposed to amend its Pilot Program to eliminate the consecutive expiration restriction for the listing of Weekly Expirations and EOMs.[14]

While CBOE could currently add more consecutive expirations to its listing schedule in order to provide some amount of mid-term coverage, the Exchange represented that customer demand is for expirations near a certain future economically impactful event (e.g., a national election) – not for every expiration between the current date and that particular event.[15] For that reason, the Exchange believed the marketplace would be better served by allowing CBOE to list Weekly Expirations or EOMs non-consecutively, instead of listing all Weekly Expirations or EOMs consecutively in order to reach a certain date.[16] The Exchange indicated that this approach would allow CBOE to list fewer expirations because it could exclude those with less customer demand, which it believed would limit potential burdens on liquidity providers to quote in the relevant option classes.[17] The Exchange also asserted that non-consecutive expirations would expand the hedging

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11 See Notice, supra note 3, at 11291; see also CBOE Rule 24.9(e)(2).

12 See supra note 9 and accompanying text. The Exchange pointed out that it separately provides long-term expirations through its Long-Term Index Option Series program ("LEAPS"). See Notice, supra note 3, at 11291; CBOE Rule 24.9(b)(1) (providing that LEAPS may expire twelve to 180 months from the date of issuance).

13 See Notice, supra note 3, at 11291.

14 See id.

15 Id.

16 Id.

17 Id.

tools available to market participants, allowing them to tailor their investment or hedging needs more effectively.[18]

The Exchange highlighted the limited scope of the proposed rule change. It pointed out that CBOE currently only lists nonstandard expirations in three classes: S&P 500 Index options under symbol SPXW, CBOE Mini S&P 500 Index options under symbol XSP, and Russell 2000 Index options under symbol RUTW.[19] Furthermore, the Exchange noted that CBOE only lists MONs and WEDs in SPXW; EOWs in SPXW, RUTW, and XSP; and EOMs in SPXW and RUTW.[20] The Exchange therefore believed the proposed rule change would not affect most options classes.[21] Moreover, the Exchange anticipated that the proposed rule change would have a limited effect on the three classes that are listed under the Pilot Program. The Exchange expressed its belief that the vast majority of expirations would continue to be listed consecutively because the majority of trading interest is in the short-term weeks.[22] The Exchange also explained that even non-consecutively listed expirations would eventually fall in line with CBOE's regular listing schedule as consecutive weekly or monthly expirations are added.[23]

The Exchange further noted that the proposed rule change would not affect the number of expirations permitted under the Pilot Program, as it would still limit the maximum number of expirations that may be listed for each Weekly Expiration and EOMs in a given class to the maximum number of expirations permitted by CBOE Rule 24.9(a)(2) for standard options on the

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18 Id.

19 Id.

20 Id.

21 Id.

22 Id.

23 Id.

same broad-based index.[24] Similarly, the Exchange clarified that the proposed rule change would not affect the maximum duration (i.e., the maximum time from listing to expiration) of Weekly Expirations or EOMs, and it proposed to specify in CBOE Rule 24.9(e)(1) and (2) that the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively.[25] By way of example, the Exchange explained that listing all twelve WEDs consecutively in SPXW would result in the twelfth WED expiration occurring 11 weeks from the nearest-term expiration.[26] Assuming that the nearest-term WED expiration occurred on February 8, 2017, the Exchange stated that the twelfth expiration would occur on April 26, 2017.[27] It then explained that, under the proposed rule, a non-consecutively listed WED could not have an expiration date later than April 26, 2017 in that example.[28] Thus, the only difference identified by the Exchange between the current rule and the proposed rule is that the current rule would require CBOE to list all twelve expirations in order to list the April 26, 2017 expiration; under the proposed rule, CBOE could list the April 26, 2017 expiration without listing any or only some of the other WEDs expirations.[29]

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24 Id.; see CBOE Rule 24.9(e)(1)-(2).

25 See Notice, supra note 3, at 11291-92.

26 The Exchange noted that its example assumes that there are no EOMs that coincide with the WEDs in SPXW, in which case CBOE would list an EOM instead of a WED. See id.

27 See Notice, supra note 3, at 11292.

28 Id.

29 Id.

Finally, the Exchange assured the Commission that its annual Pilot Program report will include any Weekly Expirations and EOMs, regardless of whether the expirations are listed consecutively or non-consecutively.[30]

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act[31] and rules and regulations thereunder applicable to a national securities exchange.[32] In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act, which requires, among other things, that a national securities exchange have rules designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest.[33]

As an initial matter, the Commission notes that the proposed rule change does not expand the scope of P.M. settlement under the Pilot Program; the Exchange has confirmed that the maximum number of expirations permitted and the maximum duration of Weekly Expirations and EOMs under the Pilot Program would remain the same. The Exchange further explained that its proposal to eliminate the requirement to list Weekly Expirations and EOMs consecutively is consistent with Section 6(b)(5) of the Act for a number of reasons. First, the proposal helps

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30 Id.

31 15 U.S.C. 78f(b).

32 In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

33 15 U.S.C. 78f(b)(5).

protect investors and the public interest because it will expand the ability of investors to hedge risks against market movements that may arise from future economic events.[34] Similarly, the Exchange noted the proposal will create greater trading and hedging opportunities and flexibility and will provide customers with the ability to more closely tailor their investment objectives.[35] Finally, the Exchange noted that this proposal will allow the Exchange to provide these enhanced hedging opportunities in manner that also limits the potential burden on liquidity providers quoting the affected classes, which helps remove impediments to and perfect the mechanism of a free and open market and a national market system.[36]

The Commission notes that CBOE will continue to provide the Commission with the Annual Report analyzing volume and open interest of EOMs and Weekly Expirations (including any non-consecutively listed expirations), which will also contain information and analysis of EOMs and Weekly Expiration trading patterns and index price volatility and share trading activity for series that exceed minimum parameters. This information should be useful to the Commission as it evaluates whether allowing P.M. settlement for EOMs and Weekly Expirations has resulted in increased market and price volatility in the underlying component stocks, particularly at expiration. This information should help the Commission and CBOE assess the impact on the markets and determine whether changes to the Pilot Program are necessary or appropriate. Furthermore, the Exchange's ongoing analysis of the Pilot Program should help it monitor any potential risks from large P.M.-settled positions and take appropriate action if warranted.

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34 See Notice, supra note 3, at 11292.

35 Id.

36 Id.

For the foregoing reasons, the Commission finds that the proposed rule changes are consistent with the requirements of Section 6 of the Act including Section 6(b)(5) and rules and regulations thereunder applicable to a national securities exchange.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[37] that the proposed rule change (SR-CBOE-2017-014) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[38]

Eduardo A. Aleman
Assistant Secretary

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37 15 U.S.C. 78s(b)(2).

38 17 CFR 200.30-3(a)(12).